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No. 92-706

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In the Supreme Court of the United States

OCTOBER TERM, 1992

YAMAHA CORPORATION OF AMERICA, PETITIONER

v.

UNITED STATES OF AMERICA, ET AL.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

BRIEF FOR THE RESPONDENTS IN OPPOSITION

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QUESTIONS PRESENTED

A gray-market good is an item manufactured abroad bearing a valid United States trademark that is imported without the consent of the United States trademark holder. See *K Mart Corp.* v. *Cartier, Inc.*, 486 U.S. 281 (1988). The questions presented by this case are:

1. Whether the court of appeals correctly determined that petitioner is collaterally estopped from arguing that Section 526 of the Tariff Act, 19 U.S.C. 1526, and Section 42 of the Lanham Act, 15 U.S.C. 1124, afford it a remedy against a gray-market importer.

2. Whether application of a Customs regulation, 19 C.F.R. 133.21(c)(2), that bars a wholly-owned subsidiary of a foreign corporation from excluding "gray market" imports manufactured by its parent violates the anti-discrimination provisions of the Paris Convention for the Protection of Industrial Property (Paris Convention) or the 1953 Treaty of Friendship, Commerce and Navigation between the United States and Japan (Friendship Treaty).

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OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-27a) is reported at 961 F.2d 245. The opinions of the district court (Pet. App. 29a-36a, 37a-46a) are reported at 745 F. Supp. 730 and 745 F. Supp. 734.

JURISDICTION

The judgment of the court of appeals was entered on April 14, 1992, and a petition for rehearing was denied on July 16, 1992. Pet. App. 47a-48a. The petition for a writ of certiorari was filed on October 14, 1992. The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

STATEMENT

1. This case involves issues arising under Section 42 of the Trademark Act of 1946 (Lanham Act), 15 U.S.C. 1124; Section 526 of the Tariff Act of 1930 (Tariff Act), 19 U.S.C. 1526, and its implementing regulations, codified at 19 C.F.R. 133.21; the Treaty of Friendship, Commerce and Navigation (the Friendship Treaty), Apr. 2, 1953, United States-Japan, 4 U.S.T. 2063; and the Paris Convention for the Protection of Industrial Property (the Paris Convention), July 14, 1967, 21 U.S.T. 1629. See Pet. vii-x. Section 42 of the Lanham Act prohibits the importation of goods to which any false trademark or designation of origin has been applied. Section 526 of the Tariff Act prohibits the unauthorized importation of, or dealing in, foreign-made merchandise bearing a registered trademark owned by a United States corporation. This type of merchandise is known as "gray-market" goods. Pet. App. 3a. A Customs Service regulation, 19 C.F.R. 133.21(b), provides that "[f]oreign-made articles bearing a trademark identical with one owned and recorded by a citizen of the United States or a corporation or association created or organized within the United States are subject to seizure and forfeiture as prohibited importations." However, Section 133.21(c)(2) of 19 C.F.R. [hereinafter the Regulation], creates a "common * * * control" exception to this prohibition for cases in which "[t]he foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control." Finally, the Friendship Treaty and the Paris Convention respectively grant Japanese corporations and foreign corporations "national treat-

ment" in most respects,[1] and allow them to form locally incorporated subsidiaries.

2. Petitioner, Yamaha Corporation of America (Yamaha-America), a domestic corporation wholly owned by a Japanese company, Yamaha Corporation (Yamaha-Japan), is the exclusive authorized U.S. distributor of "Yamaha" brand music and sound equipment. Pet. App. 2a. In connection with the marketing of this equipment, Yamaha-Japan, the equipment's producer, assigned to petitioner 18 separate U.S. trademarks for Yamaha products. *Ibid.* Petitioner objects to the marketing in the United States of "gray-market," or parallel "Yamaha" imports. *Id.* at 3a. These imports, which are genuine and bear a valid U.S trademark, are produced by Yamaha-Japan in Japan for foreign distribution. They are nevertheless imported into this country and sold here, usually by discounters, without petitioner's consent. *Ibid.*

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[1] Article 2(1) of the Paris Convention (21 U.S.T. at 1631) provides, in pertinent part, that:

> Nationals of any country of the Union shall, as regards the protection of industrial property, enjoy in all the other countries of the Union the advantages that their respective laws now grant, or may hereafter grant, to nationals. * * * Consequently, they shall have the same protection as the latter, and the same legal remedy against any infringement of their rights, provided that the conditions and formalities imposed upon nationals are complied with.

Article X of the Friendship Treaty (4 U.S.T. at 207) provides:

> Nationals and companies of either Party shall be accorded, within the territories of the other Party, national treatment and most-favored-nation treatment * * * with respect to rights in trade marks, trade names, trade labels and industrial property of every kind.

3. On May 17, 1989, petitioner filed suit in the United States District Court for the District of Columbia to obtain a declaratory judgment requiring the United States Customs Service to issue an exclusion order prohibiting importation of the Yamaha gray-market products. Pet. App. 10a. The complaint alleged that the Customs Regulation permitting this importation was invalid because it denied to petitioner, on the basis of its Japanese ownership, rights under the Lanham Act and the Tariff Act to which other domestic corporations were entitled. Petitioner also claimed a violation of its constitutional rights to due process and equal protection of the laws. *Id.* at 10a-11a. The complaint further argued that the Regulation violated the Paris Convention and the Friendship Treaty because it accorded petitioner fewer rights in industrial property than domestic corporations. *Id.* at 11a.

On December 23, 1988, approximately five months before petitioner filed this case, a district court in California had granted summary judgment against petitioner in another case in which petitioner had sued a gray-market firm, ABC International Traders Corporation (ABC). Pet. App. 3a-5a. Petitioner's complaint against ABC alleged that "ABC ha[d] violated section 526 of the Tariff Act and section 42 of the Lanham Act by unlawfully importing and dealing in goods bearing the trademarks owned by Yamaha-America without its consent." *Id.* at 4a. The district court in that case rejected petitioner's Lanham Act and Tariff Act claims. It held that, as a matter of law, there could be no violation of the Lanham Act by virtue of the importation of goods bearing the genuine Yamaha trademark, because that statute forbids only the importation of merchandise bearing a "cop[ied]" or "simulate[d]" trademark. *Id.* at 8a-9a.

The court held that petitioner also could not invoke the protection of Section 526, which had "been consistently interpreted by U.S. Customs for more than fifty years not to be available to American subsidiaries of foreign corporations." Pet. App. 6a (citing 19 C.F.R. 133.21(c)(2)). The district court denied petitioner's motion for reconsideration in the *ABC* case on March 29, 1989. Pet. App. 9a.

4. While petitioner's appeal to the Ninth Circuit in *ABC* was pending, the district court in the present case, in orders issued on January 11, 1990 (Pet. App. 29a) and September 14, 1990 (*id.* at 37a), dismissed petitioner's case. The district court held, first, that, in light of the decision in *ABC*, the doctrine of issue preclusion barred petitioner from relitigating claims of violations of the Tariff and Lanham Acts. *Id.* at 2a. The court also concluded that the Customs Service's refusal to apply the Lanham or Tariff Acts to bar the importation of Yamaha products manufactured abroad did not constitute discrimination against petitioner in violation of the Friendship Treaty or the Paris Convention, since those treaties protect only foreign nationals and companies and not a domestic corporation such as petitioner. *Id.* at 34a-35a.

5. After the Ninth Circuit, in July 1991, affirmed the decision in *ABC* in an unpublished opinion, see Pet. App. 9a, the court of appeals in the present case affirmed the district court's decision. *Id.* at 1a. The court of appeals first addressed petitioner's claims that the Customs Service's refusal to apply the Tariff or Lanham Acts to bar Yamaha gray-market imports "violates both due process and equal protection by denying it rights provided by the customs laws that are enjoyed by other domestic U.S. trademark holders." *Id.* at 17a, 20a.

The court of appeals declined to decide these constitutional claims because it viewed them as predicated on petitioner's assertion that it possessed enforceable rights under Section 526 of the Tariff Act and Section 42 of the Lanham Act. Pet. App. 19a-20a. The court of appeals concluded that among the issues "litigated and necessarily determined" by the district court in the *ABC* case "was whether or not Yamaha-America had any rights under Section 526, inside or outside of the Regulation, that are violated by the gray-market importation of genuine Yamaha goods." *Id.* at 18a. Holding that it was "precisely this issue that Yamaha-America now seeks to relitigate," the court of appeals found that "[t]he district court [here] was correct in concluding that Yamaha-America was precluded from doing so." *Ibid.* With respect to the claim of a Lanham Act violation, the court noted the *ABC* district court's conclusion "that section 42 [of the Lanham Act] does not protect Yamaha-America from importation of goods manufactured by Yamaha-Japan" bearing a genuine Yamaha trademark. *Id.* at 20a. The court then held that the Ninth Circuit's affirmance in *ABC*, rendered after the district court issued its decision in this case, precluded relitigation of all the claims of violation of the Lanham Act and the Tariff Act that petitioner sought to raise in this case. *Ibid.* The court of appeals specified that these included the questions whether Yamaha-America "had private rights under section 526 to exclude the gray-market goods that were greater than those encompassed by the Regulation," *id.* at 19a, and whether "section 42 [of the Lanham Act] * * * protect[s] Yamaha-America from the importation of goods manufactured by Yamaha-Japan," *id.* at 20a.

The court also noted that, by denying petitioner's motion for reconsideration, the district court in *ABC* had

necessarily "resolved the additional question of whether physical differences in these gray-market products 'place them within the umbrella of the federal trademark laws'." Pet. App. 20a. The court of appeals acknowledged that "[t]he Ninth Circuit did not rule on the merits of the 'physical-differences' argument," but instead found that the issue had not properly been preserved on appeal. *Id.* at 21a. The court of appeals held that since evidence of "physical differences" "could have been submitted to the district court in *ABC*," but was not, and was relevant to "an issue actually determined and necessary to the judgment" in *ABC*, petitioners were barred from raising that argument in this case under the doctrine of issue preclusion. *Id.* at 22a.

Finally, the court of appeals considered petitioner's contention that it had been subjected to discrimination in violation of Article X of the Friendship Treaty and Article 2 of the Paris Convention. Pet. App. 23a. The court noted petitioner's concession that, as a wholly owned domestic subsidiary of Yamaha-Japan, "it is *not*, itself, a foreign corporation and that it is not invoking either treaty as a foreign corporation." The court then observed that, under this Court's decision in *Sumitomo Shoji America, Inc.* v. *Avagliano*, 457 U.S. 176, 188 (1982), petitioner could show discrimination in violation of the treaties only if the government had "treated Yamaha-America differently under the regulation solely because it is a wholly owned subsidiary of a foreign corporation." Pet. App. 24a. In finding that such differential treatment had not occurred, the court observed that "[t]he Regulation would apply equally to the counterpart of Yamaha-America, *i.e.*, a domestic, wholly owned subsidiary of an American corporation[,]" which corporation "produces goods abroad both for sale and for import into

the United States." *Ibid.* The court pointed out that this Court "ha[d] recognized just such a variation" in *K Mart Corp.* v. *Cartier, Inc.*, 486 U.S. 281, 286-87 (1988). Thus, the court of appeals concluded, "[t]here is no violation * * * when Yamaha-America is treated like every other domestic trademark owner that shares common ownership or control with the owner of the foreign trademark."[2] *Id.* at 25a.

ARGUMENT

1. Before this Court, petitioner repeats the arguments that the Lanham Act and the Tariff Act afford it protection against the importation of gray-market goods manufactured by Yamaha-Japan. Petitioner also asserts that the court's refusal to permit petitioner to exclude gray-market goods under these statutes is in conflict with decisions of this Court and other courts of appeals. See Pet 9, 11, 13. This case presents no occasion for consideration of any such alleged conflicts, however. The court of appeals correctly concluded that petitioner was foreclosed from relitigating its claim that it had been denied rights under either Section 526 of the Tariff Act, 19 U.S.C. 1526, or Section 42 of the Lanham Act, 15 U.S.C. 1124. As the court of appeals held, the Ninth Circuit's decision in *ABC* either explicitly or implicitly resolved the merits of all but one of petitioner's claims of statu-

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[2] Additionally, the court of appeals rejected petitioner's claims that its property was taken without just compensation in violation of the Fifth Amendment, and that the Regulation was inconsistent with the Tariff Act. The court noted that, in *K Mart Corp* v. *Cartier, Inc.*, 486 U.S. 281, 292 (1988), this Court had upheld the Regulation as a reasonable interpretation of the Tariff Act insofar as it permitted gray-market imports in a situation such as the one at issue here. Pet. App. 26a-27a.

tory violation. As to the remaining contention—that petitioner was entitled to relief under Section 42 of the Lanham Act because of "physical differences" between its products and the imported products—the court of appeals ruled correctly that, under established principles of issue preclusion, petitioner could not raise that claim in this case because it had failed properly to pursue it in the *ABC* litigation, in which it was relevant to "an issue actually determined and necessary to the judgment." Pet. App. 22a-23a. Petitioner does not ask this Court to review the court of appeals' holding that petitioner is precluded from relitigating the issues it raises regarding possible statutory violations of the Tariff or Lanham Acts. Petitioner's statutory contentions—which the court of appeals did not reach—therefore do not merit this Court's review.

2. Petitioner also asserts that the Customs Service's refusal to apply the Lanham Act, the Tariff Act, and the Regulation to protect petitioner against the importation of gray-market goods manufactured by Yamaha-Japan gives rise to violations of the Friendship Treaty and the Paris Convention. Pet. 6-8, 11, 12. Specifically, petitioner contends (Pet. 7) that, under this Court's construction of the Friendship Treaty in *Sumitomo*, 457 U.S. at 188, Yamaha-America must be accorded all trademark rights "which domestic companies not owned or controlled by foreign companies are free to enjoy." Pet. 7. Petitioner construes the Friendship Treaty as requiring that, as a subsidiary of a foreign corporation, it cannot be treated less favorably than *any other* domestic corporation, including one that is not related to the holder of the foreign trademark and thus falls outside the ambit of the Regulation.

In effect, petitioner interprets the Friendship Treaty (see Pet. 6-8), and, by implication, the Paris Convention (Pet. 12), as barring the application to a foreign-owned corporation of any neutral rule limiting rights in industrial property if that rule happens to apply only to some, but not to all, domestic companies. Nothing in *Sumitomo* or the Treaties at issue requires this result. As the Court stated in *Sumitomo*, 457 U.S. at 188, the Friendship Treaty mandates only that local subsidiaries of foreign corporations be treated as if they were "companies of the country in which they are incorporated; they are entitled to the rights, and subject to the responsibilities of other domestic corporations." Here, as the court of appeals observed, petitioner was treated like every other "domestic trademark owner that shares common ownership or control with the owner of the foreign trademark," Pet. App. 25a, including those domestic trademark holders that are owned by *American* corporations controlling the trademark abroad. See *Id.* at 24a. Thus, the Regulation creates a distinction based on a company's relationship to the corporation that holds the foreign trademark rights, not on the foreign identity of that corporation. As the Court has held in *K Mart Corp.*, 486 U.S. at 292, that distinction is reasonable and is fully consistent with the Tariff Act. Plainly, then, the Regulation does not discriminate against petitioner because it is a subsidiary of a foreign corporation in violation of the Treaty or the Convention.

Under petitioner's theory of the Friendship Treaty as interpreted in *Sumitomo*, foreign-owned local subsidiaries, solely by reason of the foreign identity of the owner, would have to be exempted from neutral and reasonable trade statutes and regulations that would otherwise apply. As a result, foreign-owned domestic sub-

sidiaries would receive more favorable treatment than their counterparts owned by American corporations. Such favoritism based solely on the foreign identity of the parent is not mandated by—and, indeed, would be inconsistent with—the neutrality principle of the Friendship Treaty.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

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